

PARTNERING WITH PRIVATE ENTERPRISE ON ARMY POSTS

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Introduction

Excess space in Army buildings increases overhead costs, yet excess land on Army posts could be a valuable hidden asset. With tight budgets and immense needs, the Army must find ways to leverage its limited resources by working with the private sector. The Office of the Assistant Secretary of the Army (Installations and Environment) has adopted a theme of "Partnering with Private Enterprise" to convey this overarching aim.

Private enterprise includes both businesses and nonprofit organizations. The Army is looking to these partners to help it become more efficient and effective in its "noncore" activities that support the warfighter. These noncore activities include the design, construction, operation, maintenance, and management of Army facilities and installations; the preservation and enhancement of historic Army properties; and the conservation, compliance, cleanup, and site-disposal functions of the Army's environmental stewardship.

Public-Private Partnerships (PPPs), a new Army initiative, involve the private sector in the planning, development, financing, ownership, and operation of an Army facility or service. They help to leverage scarce resources of funds, time, and talent by providing new sources of funds, improving quality of service, increasing productivity, and reducing costs. These activities support and sustain our soldiers in carrying out their mission.

Defining PPPs

PPPs have two components: attracting private *capital* to help fund the Army's programs and operations, and engaging private *enterprise* to help design and execute programs. The Army's initial PPPs have included utilities, family housing, and land cleanup, and they were driven by the principle of leveraging the Army budget through new sources of funds.

But capital alone is not enough. The Army must also benefit from what I call the "4-Es" of private enterprise: the entrepreneurship, efficiency, effectiveness, and expertise that industry—especially business, professional, financial, and technology-based firms—can bring to a partnership with government. This means leveraging the ideas, knowledge, and capabilities of private enterprise throughout the functions of installation management such as land cleanup and disposal, community development and homebuilding, and base operations and management. This is not only about applying best-business practices; it is also about the fundamental art and science of land use, asset management, and operating services on military installations.

Privatization is a major element in PPPs. An oft-quoted but little understood term, it is often used in government as a synonym for outsourcing. But the two are very different. Outsourcing has been standard practice in the Army for years, as it has in corporate America. It is the process of contracting with outside, independent

organizations that can provide support services faster, better, or cheaper than the Army can—mainly because those services are *their* core business.

Outsourcing does not shift the responsibility for performance or change the nature of the service. It merely changes the organization and methods of supplying or delivering the service. For example, when trash collection or publication of the garrison newsletter is outsourced, the Army still retains responsibility for ensuring that the service is accomplished on time and within budget, and that it meets service quality standards and other requirements the Army has defined and to which the vendor has agreed.

Privatization, on the other hand, goes much deeper than outsourcing. It shifts some or all of the responsibility for planning, organizing, financing, and managing a program or activity from the Army to private contractors and partners, while retaining an interest in the operations, services, and profits of the program. Additionally, it may involve allowing a private entity to use some or all Army assets such as land, buildings, and equipment. For example, in the 1996 Military Housing Privatization Initiative (MHPI), Congress gave the Army a number of new authorities to privatize military housing. In most cases, the Army intends to lease the land and provide the use of its assets while retaining ownership for future requirements.

The bottom line is that any military function or activity that is mirrored by a large, diverse, competitive market in the private sector is a candidate for privatization. This concept is relatively new to the Army and DOD. Thus, it is especially important to clarify its meaning, particularly in view of the new doctrine and applications being developed to redirect the way the Army does business.

In my view, privatization *means* partnership and can be accomplished only *through* partnership. Partnership is, by definition, a two-way relationship—whether it's among individuals, within organizations, or between businesses and government. It is characterized by mutual interests, mutual understanding, mutual respect, and mutual responsibilities throughout a partnership's life.

Why PPPs?

The Army is focusing on PPPs for two reasons. First, because of Army force-structure reductions, the Army has significant amounts of underused assets. There is a huge inventory of land, buildings, and other facilities that divert scarce resources from critical needs such as modernizing the force and improving the quality of life for our soldiers. Private enterprise is better at creating value from real estate assets that are underutilized—value that potentially could be monetized and redeployed for other Army needs. Thus, PPPs are one of the main levers in reducing the Army's vast infrastructure.

The second reason for focusing on PPPs is that our Army posts represent substantial economic value (replacement cost is about \$220 billion, nearly twice the value of our equipment), and they consume more than \$10 billion dollars annually (about 15 percent of the total Army budget). In an era of scarce resources, this alone is cause for concern because the Army cannot afford to short-change the "tooth" (our warfighting capability) by overspending on the "tail" (our support facilities and services).

PPPs At Work

To date, the Army has limited but important experience with PPPs. In housing, for example, there is a \$6 billion backlog of substandard Army family housing that would take years to clear using current budget limits and procedures. As a result, housing privatization is a major priority for the Army and the Office of the Secretary of Defense; the goal is to eliminate all inadequate housing by using a combination of military construction funds and the new authorities Congress provided in the MHPI.

The Army launched the Residential Communities Initiative (RCI) to design, test, and implement an innovative approach to privatizing family housing. RCI will enhance the quality of life for soldiers and their families through partnerships among the Army, homebuilders, and developers to build, manage, and maintain residential communities on Army posts. These communities will include not only housing, but the amenities and support services that most Americans enjoy in their neighborhoods and communities.

RCI will maximize the Army's advantages of scale and diversification, and the private sector has already shown strong interest. The Army is offering a long-term, "whole-post" community development and management opportunity with various financing features and incentives. The private sector gains an opportunity to design and build using local market standards. The Army gains an array of ancillary support facilities such as "tot lots" and community centers. The creativity from engaging development partners and the 4-Es is already apparent in pilot projects at Fort Carson, CO; Fort Hood, TX; Fort Lewis, WA; and Fort Meade, MD.

Streamlined Procurement Process

Procurement reform is an essential element in RCI because the conventional contracting system precludes many quali-

fied firms from partnering with the Army. For privatization to work, the Army must make it easier and cheaper for the private sector to partner with us and to involve partners (once selected) in project planning.

To begin streamlining procurement, the Army re-engineered the front-end of the process by designing a Request For Qualifications (RFQ) as an alternative to the traditional Request For Proposals (RFP). RFQs have been used successfully by the General Services Administration, the U.S. Postal Service, numerous state and local governments, and large companies.

The RFQ template defines the qualifications the Army is seeking in prospective partners and criteria for selecting them, and background information about the project and the problem to be solved. Generally, qualifications include the preliminary concept and business approach to the project, financial resources, management capabilities, and—most important—demonstrated experience in projects of comparable scope and complexity. Once the partner is selected, the partner and the Army jointly prepare a Community Development and Management Plan. This plan sets the terms of the partner's relationship with the government throughout the life of each project.

This contrasts markedly with the traditional RFP in which the Army details its plan and contractors bid on it. RFPs are very costly and time consuming, both for the Army and the bidders. They also preclude contractors from applying their ingenuity to redefining a project concept and plan during the bidding process. Although winning contractors could redefine plans after the award is made, they would have little incentive and might even have to rebid the contract to do so. Consequently, the Army designed the RFQ process to select long-term quality partners with good track records. PPP innovations are also being pursued in other installations and environment functions.

Utility Operation And Maintenance

One of the Army's earliest PPP initiatives included partnering with the private sector for management of water, sewer, and electric utilities. This initiative allows the Army to transfer ownership, operation, and maintenance of water, electricity, natural gas, and sewage-treatment facilities to a private firm or special local authority. To date, the Army has accomplished this on 45 systems and plans to evaluate nearly 300 more systems for transfer during the next 3 years.

A powerful tool in this transition is the Energy Savings Performance Contract in which private firms invest capital and provide energy enhancement equipment such as high-efficiency boilers, heat pumps, and lighting. It allows the installation to leverage a contractor's resources to perform energy-saving infrastructure improvements.

Land Cleanup And Reuse

Another new administrative tool granted by Congress has assisted the Army's land cleanup efforts. To prepare contaminated land for reuse, the Army has traditionally performed the cleanup before transferring properties to local communities for redevelopment. It is now employing the "early transfer authority" Congress has granted in partnership with the private sector to encourage investment and entrepreneurship in redeploying Army assets.

Managing A Remediation Partnership

Another superb illustration of a public-private partnership is at the Army's Rocky Mountain Arsenal, 10 miles outside Denver, CO. The Army is using a novel program management concept to accomplish DOD's largest-ever cleanup effort. The Army, the U.S. Fish and Wildlife Service, and the Shell Oil Co. created a unique partnership to accomplish this project. Secretary of Defense William S. Cohen visited this facility and declared it a "national model."

Incentives

To attract private sector partners, the Army must provide incentives. The firms being sought as partners—those with the required talent, technology, and resources—will not engage with the Army simply because it's big and it's here. However, it is likely that they will respond to four incentives the Army can offer and to an aggressive marketing program that shows the Army is serious.

The most obvious incentive is profit. There must be opportunities for real operating profits and/or residual values in every venture the Army seeks to privatize. Otherwise, it will not be a sustainable, long-term business proposition.

With profit comes risk; therefore, the second incentive is enabling industry to balance the risks and rewards of partnering with the Army. Some of the Army's capital and operating risks can be shifted to the private sector in return for potential profits. Additionally, a provision for guarantees against base closures and major deployments in housing privatization reduces those extraordinary, uncontrollable risks for private developers.

Third, the Army offers *scale, scope, and sustainability* to prospective industry partners. There is an enormous backlog of housing, offices, warehouses, community facilities, and other buildings to be renovated, and thousands of sites to be cleaned up and reused. From a business perspective, the size and diversity of the Army's real estate portfolio should enable companies to plan their market entry *strategically* for the long haul. However, they can do so only if the Army articulates its needs in the same way that large corporate "market-makers" do. Moreover, few organizations in America can aggregate and structure programs in multimillion and multibillion dollar packages such as the Army can. If the Army does its job well, it should attract many prospective partners and broaden the competitive base.

Finally, the Army can and must use innovative procurement methods such as qualification-based selection, joint project planning, performance-based contracting,

and incentive-fee contracting. These methods challenge industry's ingenuity to find better, cheaper ways of meeting the Army's objectives and ensure that the Army employs better quality partners.

Conclusion

The Army is vigorously pursuing public-private partnerships because they are important in leveraging resources and improving the quality of life and well-being of its soldiers and their families.

The Army wants to partner with industry and harness its *entrepreneurship, efficiency, effectiveness, and expertise* wherever it can. These must be true partnerships that recognize the benefits derived from a balanced relationship having shared goals and expectations.

Army posts present some of the most complex management challenges in America. PPPs are a means to help the Army meet these challenges. Those who plan and manage the Army's resources have a critical role in applying knowledge and ingenuity to PPP initiatives.

Partnering with private enterprise promises opportunities for business and solutions to meet the Army's needs. Soldiers and their families deserve no less.

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Apgar received an A.B. degree from Dartmouth College in 1962, where he was a Rufus Choate Scholar and a Distinguished Military Graduate of Dartmouth's Army ROTC Program. He resumed his education at Oxford University and later received his M.B.A. degree from the Harvard Business School.
